

Timber Income Tax

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Christmas Trees

Chapter 11

Christmas Trees

- Most Christmas tree producers are subject to the same income tax rules as timber growers
- IRC and Regulations provide for purposes of § 631, the term “timber” includes evergreen trees more than 6 years old from seed when severed and sold as ornamentals
- Christmas tree production constitutes a business rather than an investment



Establishment Costs

- All establishment costs – site preparation, planting, competition control, fertilization and including replanting, are capital expenditures
- Christmas tree establishment does not qualify for reforestation expensing and amortization
- Thus, the cost of establishment must be capitalized and recovered through depletion at the time of cutting or sale

Management and Operating Expenses

- When trees are planted and grown as Christmas trees shearing, basal pruning, mowing and other maintenance expenses are currently deductible business expenses
- Expenses are subject to passive loss rules
- Producers of Christmas trees fewer than 6 years of age, when cut, are subject to the uniform capitalization rules

Uniform Capitalization Rules

- Generally, pre-productive costs are required to be capitalized rather than expensed if pre-productive period is more than 2 years
- Farmers can elect to not have the uniform rules apply: if election is made, gain on sale is recaptured as ordinary income to extent of deductions permitted by the election, and taxpayer must use alternative depreciation system (straight line) when election is in effect

Sale Income

- Capital gains treatment depends on qualifying under IRC §§ 631(a) if taxpayer cuts trees, and 631(b) if trees are sold “**on the stump**”
- “**Choose and cut**” sales do not qualify for capital gains treatment under § 631(b)
- In choose and cut operations -- a written election under § 631(a) is required for capital gains treatment

Election Under IRC 631(a)

- Fair market value (FMV) must be determined for trees as of the first day of the tax year.
- The value of standing trees at harvest can be discounted from sale date with an applicable interest rate.
- Alternatively, taxpayer can establish a fiscal year that begins after the close of the growing season. Then, $FMV = \text{sale value}$.